Rohatyn Center for International Affairs Dedication Lecture
"Freedom, Fairness, and Wealth"
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It is an enormous privilege for me to be back at Middlebury. I say this because Middlebury means more to me than just an institution where I came to learn. After leaving Nazi-occupied Europe and journeying to the United States in 1942 via North Africa, Lisbon, and South America, I finally landed here at Middlebury College. Middlebury thus was to me as much a refuge as an educational institution. I hope very much that the Center for International Affairs that we will dedicate tomorrow will be a reflection of my gratitude to this fine institution.

When President John McCardell asked me several months ago for the title of my lecture today, I said "Freedom, Fairness, and Wealth," because I had been talking about these subjects in Europe. I might just as easily have said what I am actually going to talk about tonight: "Iraq, the Domestic Economy, and Financial Scandals," because they all involve freedom, fairness, and wealth.

Some of you may know how much I revere the memory of Professor Ben Wissler. Professor Ben Wissler had the wisdom to see that I would make a terrible physicist and urged me to pursue other things. But above all, he taught me how to think. I remember one class where Professor Wissler walked us through the solution of a problem and then asked me if I had the right answer. And I said, "No professor, I have the wrong answer." "No," said Ben Wissler, "you don't have *the* wrong answer. You have *a* wrong answer." And I have always remembered that, because what he was saying to me was that there is always an abundance of wrong answers around for every question, but that there are never that many right answers.

And I think that certainly applies today to our possible actions in Iraq and how they will affect our domestic as well as our world position. In September, I attended a colloquium in New York in which Czech President Václav Havel joined together with Bill Clinton and Elie Wiesel in a very general discussion about power, freedom, and human rights. I am a huge fan of these three men, but what stuck with me the most was Havel's speech, which consisted of an introspective, lengthy exposition of his self-doubts, his feelings of inadequacy, and his concern about his ability to influence events. At the same time, he was totally firm in his support of American intervention in Iraq as part of an international coalition within the U.N. and within NATO. "You cannot negotiate with tyrants," he said. However, he was equally fearful of the fallout from any unilateral American action. Here was a man who had been in prison and whose moral strength played a critical role in the collapse of a totalitarian regime in his country. His humility was an inspiration, especially in light of his life's achievements.

I can only wish that as we trumpet a new doctrine of global superiority and the right of preemptive self-defense that we would exhibit even a fraction of Václav Havel's humility and intellectual open-mindedness. It would be reassuring to a world suddenly faced with an aggressive assertion of American global power, far removed from the collective and multilateral security arrangements advanced by presidents Roosevelt, Truman, Eisenhower, and Nixon. I support the notion that terrorist organizations, rogue states, and weapons of mass destruction have necessitated new paradigms and that preemptive action, in some cases, is appropriate. Saddam Hussein, as well as Al Qaeda, certainly represents a real threat. Within the framework of the United Nations and the support of our traditional allies, action to enforce weapons inspections and the

disarmament of Iraq is obviously justified. But in a country that rightly prides itself on being the world's greatest and oldest democracy, a greater effort to explain to the American people the risks connected with a unilateral strike on Iraq if we were to act in the absence of international support is in order.

I find myself somewhat like Havel, unsure of where I stand and inadequately prepared to make a definitive judgment on such abrupt changes in our international posture. Today, America faces two major challenges simultaneously. The first involves our international security position regarding Iraq and the war on terrorism. The second involves our domestic economic and political circumstances. We face a possible war and a weak economy simultaneously. These two challenges are closely related, although the present public debate does not explicitly link the two. During my four years as Ambassador to France, I had ample opportunity to see the level of distrust in France and in other parts of Europe that results from perceived American cultural, economic, and military domination. Our seeming insensitivity to the views of our allies does little to dispel these suspicions. Our new doctrine will only reinforce these views many times over. If our new policy is deemed necessary to meet an immediate global threat, in and of itself, this shouldn't deter us. However, we need more of an explanation as to why Iraq alone, or even the so-called Axis of Evil, should require an overall change in our policy all over the world–especially one so fraught with consequences. There will not be a full debate on these questions, since the congressional majority has concluded that it is more desirable to approve quickly the Administration's request than to have a real debate. Who will now ask the questions, not only about Iraq, but also about its aftermath, as well as those concerning a whole new global reach and doctrine?

We need to debate these tough questions, even if we do not appear to have the necessary domestic stability, both political and economic, required for such an effort. The lesson I learned from the New York City fiscal crisis twenty years ago was that a political leader could ask for considerable sacrifice from the American people. The American people would rise to the challenge if the sacrifice was deemed appropriate and was distributed in a reasonably fair manner. I doubt that the requisite perceptions of fairness exist today, in an era when tax-cuts are heavily weighted in favor of upper-income Americans, when corporate scandals mean that senior executives walk away with hundreds of millions while ordinary employees lose their jobs and their savings, and when initial public offerings of hot stocks are also preferentially provided to some of these self-named CEOs.

The administration to date has failed to differentiate between the profoundly different economic and political impact of the two possible approaches to military action in Iraq–namely, with or without the endorsement of the United Nations. This is a most serious shortcoming. How we choose to deal with Iraq will have profound repercussions, both on our international posture as well as on the strength of the Atlantic Alliance. It will have a significant impact on our domestic economy as well as on our social cohesion.

It is clear today that the uncertainty over Iraq has become an important factor putting pressure on a weak domestic economy. This is caused by uncertainty about the war, about its cost, and more importantly about the cost of its aftermath. We cannot predict the effect of our actions on the future price of oil or on its supply, on the cost of reconstruction in Afghanistan, and on the likelihood of increased terrorist acts in the

United States. *How* we deal with Iraq, not *if* we deal with Iraq, will have a dramatic impact on our domestic agenda. The strategy for dealing with Iraq and for bolstering a faltering domestic economy must therefore be linked. Going it alone in Iraq will mean damaging, maybe permanently, the effectiveness of the United Nations as well as of NATO and of the Atlantic Alliance as real factors in the international security arena. These two institutions have been the pillars on which global security has been built for the last fifty years, and undermining their integrity can only be highly destabilizing, for them as well as for us. An American attack without U.N. support is likely to lead to more domestic threats; as a result the investment in homeland defense will have to climb that much higher. Investment in defense, which is already rising very steeply, will increase all the more rapidly. At the same time, our five-trillion-dollar surplus has already disappeared due to the recession, to the collapse of the financial markets, to increases in defense spending, and to the effects of future tax-cuts.

Laurence Lindsey, President Bush's economic advisor, has priced the cost of the war at a hundred to two hundred billion dollars. The cost of its aftermath could easily be as much or more. We are already facing two-hundred-billion-dollar annual deficits far into the future, and they might go much higher as a result of this action. A sharp increase in oil prices would seriously damage our economy as well as our currency, and as a result of globalization, greater weakness in the American economy could quickly spread to the global economy. Argentina, already in bankruptcy, could soon be joined by Brazil. Japan and Europe would go into recession. Turkey is in fragile condition, and the developing world in general would be hard-hit. These are serious risks that are difficult to quantify

since they all interact with one another. However, they exist and must be taken into consideration.

President Bush says quite rightly that Saddam Hussein presents an unacceptable security risk that must be eliminated. But fighting Iraq alone may also be an unacceptable risk, when one factors in the larger economic and geopolitical implications. The support of our major allies as well as of the U.N. Security Council would make an important difference. It would maintain greater stability in the Moslem world. It would provide a foundation for burden sharing in the reconstruction effort. It would maintain the cohesion of NATO as a platform for the alliance. And it would provide for greater social cohesion, both in the United States and in Europe if the war, as may well be the case, turns out to be longer and costlier in lives and treasure than expected. President Bush has stated that war is his last option, but if this option has to be exercised unilaterally, the administration and the Congress should lay out a credible scenario of the risks and the costs involved. These will undoubtedly be greater than anything that has up to now been discussed. We should then prepare for a war that may be longer than expected, and carry significantly greater risk. We should consider stronger measures of domestic security as well as of economic readiness, such as sharply reducing our civilian energy consumption, ending the existing tax-cuts to pay for higher defense spending, and assisting state and local governments with more federal budgetary assistance in their infrastructure investments. We have to provide greater resources to the IMF and the World Bank to meet financial crises in countries like Turkey or Brazil. We should accelerate our ability to vaccinate all Americans against small pox.

It is also worth noting that our new doctrine of total global military superiority implies open-ended increases in defense spending far into the future—the sort of thing President Eisenhower talked about when he left office in 1960. If this is to be a fight for freedom, we should be told the costs that it may entail so that we may be sure that these costs are distributed equitably. None of these eventualities are remotely under discussion today, and yet wars have a habit of getting out of hand. Certainly Iraq is weaker than it was during the Gulf War; certainly we will win the war under any likely scenario. But the region is less stable, the world is less stable, and the repercussions of war, if we are fighting alone, are unpredictable.

While facing the overseas challenge, we also face important challenges on the domestic front. I can't recall a time of greater gloom in the financial community than the period we have just experienced. Rivals include only the crisis of the New York Stock exchange, and the Israeli-Arab wars that resulted in the oil-embargo and the long bear market that went along with it. Today, similar economic elements are present, but it is the financial integrity of the entire American business community that is suspect. Credit comes from the Latin word *credere,* to believe. When that foundation is damaged, the system itself is in jeopardy, and that is precisely where we are today. Broken faith takes a long time to restore, as the Catholic Church is now learning. Our national economy is fundamentally on the wrong track; the federal budget that produced steadily increasing surpluses at the end of the 1990s is now producing a string of growing deficits. We have gone in a very short period of time from being a country with a budget in surplus, a strong currency, and a decreasing national debt to a country with a long-term budget deficit, a weakening currency, and an increasing national debt.

Our huge foreign deficit requires capital inflows of over a billion dollars per day. It had been provided regularly by foreigners investing in our markets, attracted by the strength of our economy, our currency, and the integrity of our system. This inflow is now sharply reduced—depressing the dollar, increasing the risk to our economy. America's dependence on foreign oil, and the fact that its sources are unreliable, aggravates our foreign trade deficit. Conservation is a national security imperative, but no administration, Democratic or Republican, has been willing to present the country with realistic alternatives. These should include oil import fees and more stringent mileage standards for cars and SUVs. We seem willing to fight a preemptive war to protect ourselves from Iraq, but we are not willing to take simple actions to preempt an almost certain energy crisis.

In the end, however, the most important economic issue facing our country today is the issue of fairness. The stock market boom and its inevitable bust have created ever-wider gaps between the very wealthy and the rest of the Americans. The outrageous compensation packages of many corporate managers, and other symbols of abuse throughout our financial institutions, have shaken our faith in the fairness of our system. They have combined to convince our overseas critics that American-style capitalism and globalization exploit the less fortunate. It may also convince many Americans of the same thing. Nearly a century ago, Teddy Roosevelt railed against the malefactors of great wealth, referring to the Morgans and the Rockefellers, the Carnegies and the Vanderbilts. These were hard men—the robber barons—and Roosevelt's anti-trust laws and Federal Reserve System were the beginnings of the regulatory answer meant to control their excesses. But they did build this country's industrial and financial infrastructure, as well

as many of its cultural and educational institutions. These so-called robber barons were followed by the financial speculators of the 1920s, who brought about the crash of '29 and the Great Depression. Finance capitalism almost ruined this country then, and Franklin Roosevelt, with his New Deal legislative initiatives to regulate the securities and banking industries, saved American society and capitalism from itself.

What we're seeing today bears more resemblance to 1929 than to 1905, and to the paper empires that collapsed in the crash. I'm a capitalist, and I believe that market capitalism is the best economic system ever invented for the creation of wealth. But it must be fair, it must be regulated, and it must be ethical. The last few years have shown the excesses that can come about when finance capitalism and modern technology are simultaneously abused. Only capitalists can kill capitalism, but our system cannot stand much more abuse of the type we have witnessed recently. The Enrons, the WorldComs, the GlobalCrossings and their CEOs cannot be allowed to be representatives of American business. These men were high-level thieves who stole from their shareholders and employees to enrich themselves. Calvin Coolidge once said, "The business of this country is business." That is to a large extent true today, but it imposes on business the responsibility of remembering that the foundation of our democracy is fairness. If we do not reaffirm our commitment to this notion, the future of American capitalism will be in jeopardy.

In defending our own freedom and that of many others, the issue of fairness must always be paramount. We must take great care to protect those who are most likely to bear the brunt of our national security imperatives. Ultimately, no matter how hard you try to be fair, the people with the least means are always those that get hurt the most;

what you have to try to do is to cushion this as much as possible. With respect to this issue of risk, Europeans often criticize our capitalism for being a sort of casino-capitalism. And frankly, having witnessed the events of the past decade, it is hard not to say, "Well, maybe they have a point." And that's why I have repeatedly emphasized the importance of careful regulation and ethics. A market system that allows risk-taking and wealth creation has to limit the amount of permissible excesses, because ultimately those excesses hurt us all.

The requisite will to advance this important agenda can come only from the political leadership. Republican presidents such as Abraham Lincoln and Theodore Roosevelt understood this, as did Democratic presidents such as Woodrow Wilson, Franklin Roosevelt, and Harry Truman. National security is our most important issue today. It will require real sacrifice on the part of all Americans. Americans will, as always, answer the call. But when that call comes, it must be seen to be fair.